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BUSINESS NEGOTIATION IN CHINA

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RESEARCH REPORT

Presented to

The Graduate School

In Partial Fulfilment

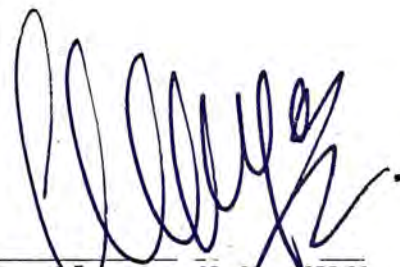
of the Requirements for the Degree of

MASTER OF BUSINESS ADMINISTRATION

THREE-YEAR MBA PROGRAMME

THE CHINESE UNIVERSITY OF HONG KONG

May 1985



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ABSTRACT

Following the visit of Richard Nixon in 1972, China has gradually reopened to foreign trade. The volume of business has been increasing in an enormous rate. When business transactions are negotiated, understanding of the mechanism of the following items would be much valuable to foreign business people : trading and negotiating parties, impact of decentralization of negotiating power, rules and regulations to observe and the political climate. This paper seeks to analyze these influencing factors from the perspective of business people based in Hong Kong.

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ACKNOWLEDGEMENTS

The authors would like to express their sincere gratitude to their advisor, Mr. Oliver H.M. YAU, who has given the much guidance and advice throughout the writing of this research project, and for his constructive criticisms in the various chapters of this paper.

Finally, the authors also express their gratitude to the distinguished scholars and professionals who have spent much of their precious time in answering the questionnaire and giving advices to the authors, and who have given the authors much insight and information in making this research project a possibility.

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CHAPTER I

INTRODUCTION

Utilize foreign funds actively and efficiently to promote the development of production and construction of our country.¹

China had for almost thirty years been isolated from developed countries -- both politically and economically. Following the visit of then United States President Richard Nixon in 1972, China has gradually resumed its communication and trade with those countries, and the growth becomes very obvious after the upturn of new Chinese political authority in 1974. Several cornerstones are casted since then:-

1973 China's foreign trade volume had increased 74% from US\$6.3 to 11.0 billion following Richard Nixon's visit;

¹ Calligraphy by Chen Muhua, China's State Councillor, Minister of Foreign Economic Relations and Trade

- 1978 Foreign trade volume had increased 39% from US\$14.8 to 20.6 billion following the upturn of new Chinese political authority in 1974 and subsequent re-formulation of foreign policy;
- 1980 Foreign trade volume had increased 29% from US\$37.8 to 40.4 billion as a result of an open policy officially announced in the Third Plenary Session of the Eleventh CPC Central Committee held in 1979 to actively carry out economic and technological exchanges for accelerating China's socialist modernization;
- 1984 Although official publication of foreign trade volume is not yet available, a substantial growth is expected following the Third Plenary Session of the Twelfth CPC Central Committee in 1984. During this meeting, China had officially announced an even more open policy in foreign trade practices and had opened 14 cities as special economic zones following the successful trials in Shenzhen, Zhuhai and Zaikao.

As the trade business evolves, transaction nature becomes more sophisticated and widely spreaded -- from a simple import and export deal to joint venture establishment, from foreign loan to project finance. Owing to the changes in policy and sophistication of business transactions, we as foreign investors must deal with them from various perspectives, especially during the negotiation process. Followings are some of the key areas:-

TRADING AND NEGOTIATING PARTIES

As the trade business is widely diversified -- from hotel establishment to manufacturing of high-technology product, from exploration of raw material such as crude oil to most advanced communication system, -- various Chinese organizations including government officials are involved in negotiation. People from these organizations will take on different attitude in negotiation and thus will induce different negotiating attitude from foreign investors.

DECENTRALIZATION OF NEGOTIATION POWER

By 1984, China has semi-officially decentralized certain business negotiation power to local "foreign trade corporation". The implication is more than just a change in negotiating parties because a local agency will certainly take on a different attitude from a centralized agency. For the joint venture businesses in the 14 opened cities, this phenomenon is even more obvious.

RULES AND REGULATIONS TO OBSERVE

Since the official announcement of open foreign trade policy in 1979 and further announcement in 1984, China has legislate related laws and regulations to govern foreign trade and joint venture business. These laws control not only the establishment and implementation of the businesses, but also concern about returns and taxes, foreign exchange control, etc. They certainly have impact on foreign investors' attitude.

POLITICAL CLIMATE

Sino-British agreement signed in 1984 has opened up a completely new era to Hong Kong's future. In order to get ready for future new political and economic environment, foreign investors especially those from Hong Kong may undergo a major change in their business attitude and practices.

These factors are by no means exhausted. We have, however, tried to find out their impacts on business negotiation through a research project. This paper presents our findings and comments. The next chapter describes the research method we employed, followed by an analysis of survey results. Although our survey covers virtually all industries in general, the remaining part of this paper concentrates on some particular verticals.

CHAPTER II

METHODOLOGY

The research is dealing with the business negotiation mechanism and difficulties between the People's Republic of China and Hong Kong business entities. Previous studies in this area by scholars and economists cannot be obtained. Because of the fear of loss the competitive advantage, business entities would not easily divulge their internal information to the public. Statistics published by the Census and Statistics Department of the Hong Kong Government and the People's Republic of China are concentrated on figures of transaction amount. There is no standard marketing information services available in Hong Kong.

Therefore, this paper endeavours to obtain information based on the survey carried out by the researchers. Questionnaires were sent out by mail to the Hong Kong Offices of 100 entities from the book "A directory of resident offices of foreign, overseas Chinese, Hong Kong and Macao enterprises" ².

Telephone calls were conducted to follow up the mail and ensure the return of the questionnaires. The business of the companies covered by the survey include:

1. Services business;
2. Consumer goods;
3. Industrial goods; and
4. High technology products.

After the collection of questionnaires, a systematic analysis had been carefully designed. Based on the information obtained, a series of tables had been produced to give a true picture of the existing activities, the socioeconomic characteristics, the

² "A directory of resident offices of foreign, overseas Chinese, Hong Kong and Macao enterprises" China Industrial and Commercial Management Press, Beijing in 1984

attitudes and opinions of the businessmen, the motivatives and intentions of the negotiations, the difficulties during the process and etc. Finally, summary some comments had been drawn up in order to help the Hong Kong business entities in carrying out their future business negotiations effectively and smoothly.

CHAPTER III

RESEARCH RESULT

In an effort to find out the opinion on business negotiation with China from the perspective of foreign firms, we had conducted a survey by sending questionnaires to a hundred China trade firms based in Hong Kong. Forty of them had responded, making a pretty high response rate of 40%.

Of these one hundred firms, the majority of them are in trading. Others are in services, finance, high technology and a combination of them.

We have also analyzed some demographic characteristics of the respondents:

38 of them are male, 2 of them are female.

Their ages are

5 are below 30 years old,
11 age between 31 to 35,
17 age between 36 to 40,
3 age between 41 to 45,
2 age between 46 to 50, and
2 age above 50.

The 40 respondents, on the other hand, represent a wide spread of experience with China trade in terms of their position within their organizations, the number of years' experience in trading with China, the size of their companies and in particular the number of staff they have in the China trade section. The spreads are summarized in Appendix 2 - Tables A to E.

Table 3.1

SUMMARY OF RESPONSES TO THE QUESTIONNAIRE

<u>Statement</u>	<u>Response</u>	<u>Percen- tage</u>	<u>Devi- ation</u>
1. In establishing a good business relationship with the People's Republic of China (PRC), some knowledge of China's history and culture is helpful.	Agree	94.9%	Small
2. PRC trade corporations prefer to make initiate contacts through private commercial organizations specializing in PRC trade.	Agree	67.5%	Medium
3. PRC trade corporations show great loyalty to supplier/buyers of long standing.	Agree	90.0%	Small
4. PRC trade corporations take a longer time to reply foreign trade proposals than do those in other countries.	Agree	92.5%	Small

<u>Statement</u>	<u>Response</u>	<u>Percent- age</u>	<u>Devi- ation</u>
5. PRC negotiators tend to trust a firm with more interactions.	Agree	89.7%	Small
6. PRC representatives are extremely tough negotiators.	Agree	82.5%	Medium
7. The officials of PRC trade corporations are technically well trained regarding the product they represent.	Disagree	72.5%	Medium
8. A technical specialist must accompany your representative in negotiating with PRC officials.	Agree	55.0%	Large
9. PRC negotiators prefer to make group decisions.	Agree	82.5%	Medium
10. You prefer to negotiate with a centralized agency rather than a local foreign trade corporation.	Disagree	66.7%	Large

<u>Statement</u>	<u>Response</u>	<u>Percen- tage</u>	<u>Devi- ation</u>
11. Official of centralized trade corporation have same concerns as those of local trade corporation.	Disagree	71.1%	Medium
12. Centralized agency is easier to negotiate with.	Disagree	62.2%	Large
13. PRC negotiators usually negotiate with foreign representatives of equal rank or position.	Agree	70.0%	Medium
14. In general, after relations are established, the PRC negotiators are easier to trade with than those of other countries.	Agree	72.5%	Medium
15. Centralized agency is very effective in negotiating because they are knowledgeable of the business.	Disagree	55.3%	Medium

<u>Statement</u>	<u>Response</u>	<u>Percen- tage</u>	<u>Devi- ation</u>
16. It is costly and time-consuming to negotiate with centralized agency because local buyer/seller has to be negotiated with again.	Agree	65.8%	Medium
17. Joint venture businesses are easier to trade with in PRC.	Agree	60.5%	Large
18. It is a good move for China to open the 14 cities for foreign trade.	Agree	95.0%	Small
19. It is necessary for more cities including some in inland to be opened for free trade.	Agree	92.5%	Small
20. Special Economic Zone (SEZ) provides a lot of flexibilities for foreign trade.	Agree	90.0%	Small

<u>Statement</u>	<u>Response</u>	<u>Percent- tage</u>	<u>Devi- ation</u>
21. PRC negotiators are very knowledgeable in product pricing.	Disagree	60.0%	Large
22. Gross margin is decreasing for PRC business.	Agree	80.0%	Medium
23. Price is the prime factor in getting business in China.	Agree	77.5%	Medium
24. Expertise, service and financing are key factors for getting business in China.	Agree	72.5%	Medium
25. PRC is very demanding on service and financing.	Agree	71.8%	Medium
26. PRC always includes overseas training as part of the contract.	Agree	82.1%	Medium
27. Rules and regulations of trade in China are ambiguous.	Agree	92.3%	Small

<u>Statement</u>	<u>Response</u>	<u>Percen- tage</u>	<u>Devi- ation</u>
28. New foreign trade regulations are more favourable to foreign investors.	Agree	86.5%	Small
29. PRC contracts are highly specific in details as compared to those in other countries.	Neutral	50.0%	Large
30. In order to prevent merchandise quality disputes, it is necessary to specify the nature of inspection tests and product standards in contracts.	Agree	92.5%	Small
31. PRC negotiators adhere closely to the terms and conditions specified in their contracts.	Agree	61.5%	Large
32. When a contract dispute arises, PRC prefers to negotiate settlements rather than employ the arbitration provided in their contracts.	Agree	100.0%	Small

<u>Statement</u>	<u>Response</u>	<u>Perce-</u> <u>n- tage</u>	<u>Devi-</u> <u>ation</u>
33. PRC prefers that goods traded be shipped and insured by their own companies.	Agree	92.3%	Small
34. PRC accounting standards are different from Western countries.	Agree	94.1%	Medium
35. PRC accounting and taxation systems are reasonable.	Agree	54.3%	Small
36. PRC organizations always have foreign exchange problems.	Agree	89.7%	Small
37. Exchange control in SEZ is relatively loose.	Agree	86.1%	Small
38. Sino-British agreement has favourable impact on trade with companies based in Hong Kong.	Agree	90.0%	Small

<u>Statement</u>	<u>Response</u>	<u>Perce-</u> <u>n-</u> <u>tage</u>	<u>Devi-</u> <u>ation</u>
39. With this agreement and new future of Hong Kong, you, as a Hong Kong citizen, want to trade with China for goodviews.	Agree	94.7%	Small
40. Hong Kong is a good base for China trade.	Agree	100.0%	Small
41. A Western country company based in Hong Kong is easier to trade with China.	Agree	100.0%	Small
42. Long term investment in China can be justified.	Agree	71.1%	Large
43. The 14 opened cities and SEZ will gradually overtake the privilege of Hong Kong in China trade.	Disagree	67.5%	Medium

The responses are grouped according to most respondent's replies into three categories, viz: Agree, Neutral, and Disagree . When there are more than 70 percent of the responses fall into the specified category, its deviation is said to be "small". But if the most popular response occupy less than 50 percent of the total number of responses, its deviation is said to be "large". Otherwise, its deviation is "medium".

Out of the 43 questions asked in the questionnaire, 19 of them are answered with small deviation, 16 with medium deviation. Only 8 questions have dispersed answers. It implies that most respondents have similar perception towards business negotiation in China, except in certain areas in which demographic background and experience of the respondent and the size of his company may play a part.

CHAPTER IV

THE NEGOTIATION

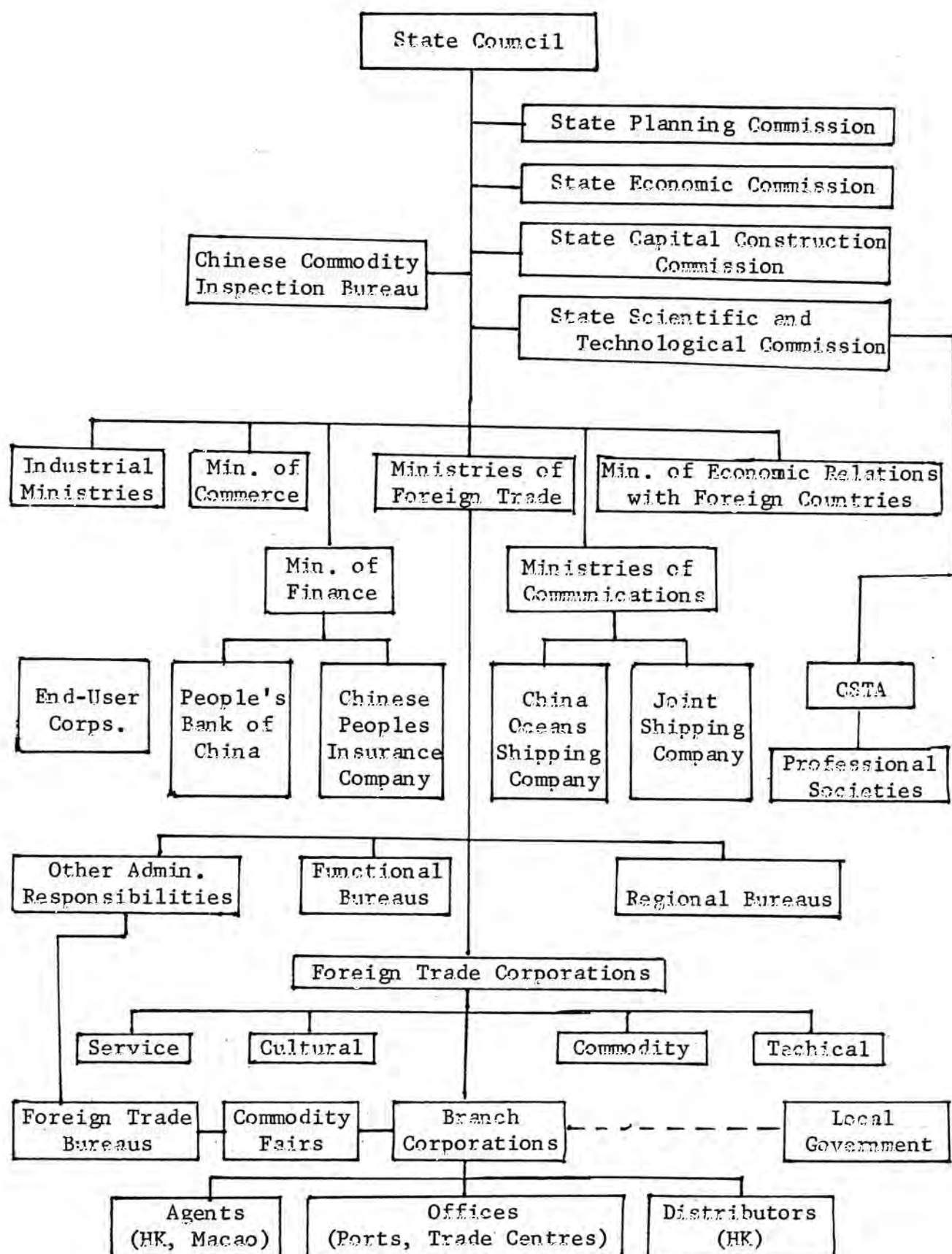
With the establishment of the People's Republic of China (PRC) in 1949, a foreign trade structure was created to conduct trade activities with other countries as a part of the overall plan of economic reform. The importance of understanding this structure to firms undertaking negotiations cannot be overemphasized. In lieu of this, we will start this chapter with a description of China's foreign trade structure, followed by an analysis of the negotiation process and the associating factors which then in turn be testified with the results of the survey we had performed.

4.1 THE CHINESE FOREIGN TRADE SYSTEM

All foreign and domestic trade in China is under the policy direction of the State Council as enunciated by the Chinese Communist party. The State Council consists of the premier, four vice-premiers, and a number of specialized ministries, commissions, bureaus and other special agencies. Most high government officials including most of the ministers are also members of the Politburo of the Central Committee of the Communist party. The agencies and ministries concerned with foreign trade are shown in figure 4.1, which depicts the "structure" that constitutes China's foreign trade system.

Although China's decision makers have stressed the importance of centralized planning and foreign technology purchases, since the upturn of new Chinese authority in 1978, an effort has been made to accommodate the interests of influential provincial leaders, provinces and local offices. They have been granted increasing authority in the decision-making process. In particular, factories and local corporations are participating in the survey of the

FIGURE 4.1 CHINESE FOREIGN TRADE ORGANIZATION



international market and are studying foreign technology in preparation for the purchase of equipment, its application to the production line, and the licensing and hiring of foreign consultants. But import of major consequence will continue to be determined centrally, mainly because China needs to conserve scarce foreign exchange. Another important rationale for centralization is that only the "center" can accomplish the necessary comparison shopping to avoid losses or send personnel abroad to inspect, to negotiate and to make preparations of construction without wasteful duplication of effort and cost. Under certain circumstances, there are factors other than the above mentioned, such as: China's political relations with individual trading nation, its existing contractual commitments to foreign partners, the nature of import and export commodities in conjunction with the growth of its domestic industries, internal demand and export capability, and the amount of foreign currencies and external financing available.

This foreign trade system is undergoing changes from time to time. In fact, the Foreign Trade Corporations subordinating to the Ministry of Foreign

Trade and its local branch corporations are playing an increasingly important role. With the opening of 14 cities as special economic zone, we anticipate further decentralization of decision-making is going to take place. This brings about considerable impact to negotiation because both the understanding of local needs and the attitude of local representatives are quite different from those of the centralized agencies.

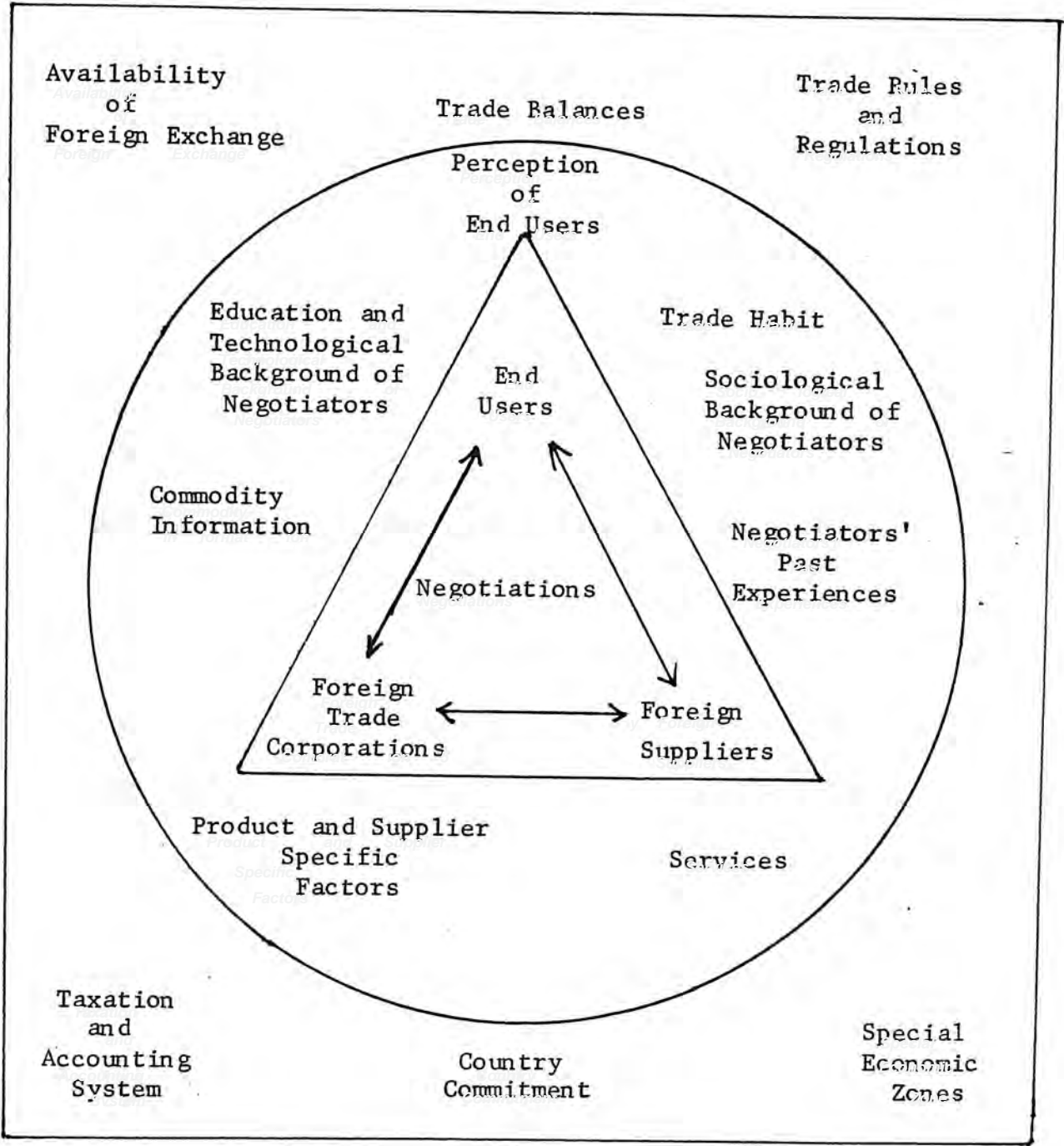
4.2 THE NEGOTIATION PROCESS

Although the State Council and commissions have supreme control over China's foreign trade, foreign firms interact mainly with two parties: the end user and foreign trade corporation (and/or its local branch). Both parties are in general involved in selection of supplier, and in most cases the choice is made by joint decision. As far as negotiation is concerned, the remaining part of the "System" and China government as a whole appear as outside influences. This model is illustrated in figure 4.2.

There are three layers in the model:

1. The core consists of negotiations amongst end user, foreign trade corporation and foreign firm. In very brief terms, end user negotiates with foreign firm in the applicability and specifications of the commodity; end user then negotiates with foreign trade corporation for justifications of the transaction and granting of foreign exchange; and finally foreign trade corporation negotiates with

Figure 4.2 THE NEGOTIATION MODEL



foreign firm for contractual terms of the business transaction.

2. The second layer is influences act upon the negotiations. We have outline a number of factors, such as: the sociological and technological background of the negotiators, their past experience with each other, perception of end user and foreign trade corporation towards the foreign firm, etc. All these factors have direct impact on the negotiation and can turn it into an either easy or tough process.

3. The outside layer consists of situational factors. China's overall planning and strategy on the need of the commodity, availability of foreign exchange, import/export rules and regulations, and even the opening of special economic zones are just a few examples. Foreign firms do not have direct contact with these issues, but they do exist and influence the negotiation process.

To gain an insight into the negotiation process, we have broken it down into five inter-related sections, as shown in figure 4.3:

1. Building up of expectation of China negotiators;
2. Concerns on commodity and supplier's support;
3. Contractual issues;
4. Situational factors; and
5. Foreign firm's attitude

4.3 EXPECTATION

China has over a thousand years of history in trading with foreign countries. What had been experienced over the past and inherited today have created a very special atmosphere. The impact of China negotiators' expectation to the negotiation process is far more important than that in other countries. Factors which influence the expectation of the negotiators are as follows:

Experience With the Trading Country

The Chinese trading practice depends a lot on the past experience with the countries concern. This might be due to the fact that historically China had been luted by different foreign countries in various battles and there was a general feeling of distrust on the part of the Chinese. Therefore the Chinese feels more comfortable to enter into trade relationship with countries which have long been their allies. It takes a long time to establish such friendship with the Chinese. But as soon as

relationship is developed, the Chinese tend to be very loyal to the particular country. This attitude extends to commercial firms. Firms with longer establishment in China are preferred (Statements 1, 3, 5, 14 of table 3.1).

Education and Technological Background of the Negotiators

In the past when all foreign trading negotiations of same nature were centralized within one department, the negotiators had the opportunity to be sent to various plants in different countries for training as well as to gather information. Most of them thus had strong technical background knowledge. But with the introduction of decentralized approach, the chances of going abroad reduces and local negotiators become quite ignorant of the most update technological changes and findings (Statements 7, 21 of table 3.1).

In response to that, some foreign firms bring along a product specialist or a consultant to educate the China negotiators. Whether this has a positive

effect on the trade relationship between the Chinese and the trading company depends on their prior experience as mentioned above (Statement 8 of table 3.1). If there is mutual trust, the Chinese tends to believe what the specialists say. Otherwise, it becomes difficult to convince the Chinese end user and/or negotiator due to the gap in the levels of communication and the effect could become negative.

Satisfaction with Previous Purchases

Often it is difficult if not impossible to make all individuals involved in the negotiation to be equally satisfied. It might be due to the different goals and objectives they have. For example, the end user wants to purchase state-of-the-art technology and receive extensive training and support afterwards, but foreign trade corporation wants lowest price product.

Since all local organizations (end users) are owned by government, most of them with similar nature of business communicate with each other on the

exchange of information and technologies. Success in trading with one organization could effectively bring about subsequent trades. Same is true for failure. One unsuccessful experience will be universally known. This phenomenon is more obvious in the case of foreign trade corporation where most purchases are centralized.

Information Sources and Searches

Even after China is open to foreign trade, it is still somewhat isolated from Western countries. The reason is three-fold. First, China is geographically far from those countries. Second, the languages are different. Third, it is very costly for foreign firms to launch trade show and exhibition in China, eventhough these activities are found very effective.

Therefore, most of the end users rely on magazines, professional journals and feedback from China's overseas representatives regarding trade shows and exhibitions. But owing to the delay in the feedback process, quite often the information is found outdated. Sometimes it creates

misunderstanding on the part of end user and foreign trade corporation who interpret the information supplied by foreign firm. And we have found that the relationship with the Chinese negotiators will definitely be enhanced if individual firm can maintain a constant interaction and bring most recent products update and market information to them (Statement 5 of table 3.1).

Perceptual Distortion

In psychological terms, every individual strives to selectively distort and retain information according to his own prior knowledge and objectives. The perceptual distortion could be very severe for people coming from different background, or working towards different goals.

A foreign firm doing business in China often has to put up with conflicting needs from the end user and members of the foreign trade corporation. The end user is most concerned about the applicability of a product and the subsequent training and support. However the foreign trade corporation is most

concerned about foreign exchange, price of the product and the contractual details. One single piece of information, such as announcement of new product and change in product price, could receive very much different interpretation. If this situation is not handled well, the trade decision which is jointly made by the end user and foreign trade corporation will be delayed or declined.

4.4 PRODUCT AND SUPPLIER FACTORS

Product Specific Factors

Since 1973, China has set up several five-year plans. The plans address various aspects of improving the economic status of China. They realize at the same time that a more advanced technological standard is inevitable in achieving the plans. Being a slow starter in the technological race, China is eager to catch up as soon as possible. As a result China is eager to import any state-of-the-art technology.

This product direction is not only found in the end user, but also effectively implemented by the commission and foreign trade corporation. As a matter of fact, if the product is not the most advanced, they will either manufacture it themselves or forbid its import.

Supplier Specific Factors

Long term strategy of the foreign firm in trading

with China is one of the crucial factors for selecting a supplier.

First of all, the existence of the firm can affect the applicability of the product. Owing to their scarcity of resources, very often China's end user expects a much longer life cycle of a product than other countries. If the firm is not going to last for a long time, end user's investment is not protected.

Secondly, the size of the firm also play a part in the decision making. More and more the Chinese is looking for a diversified support which can only be supplied by large corporations. On the other hand, the larger the firm, the longer they expect it is going to last. Thus the foreign firm's continuous support and their existence are determinating factors for selecting a supplier.

Support and Services

China's end users are very demanding in supports from suppliers (Statements 25, 26 of table 3.1).

First of all is support on training. The Chinese negotiators usually demand overseas' training which sometimes is included as part of the contracts. Hong Kong is the most cost effective site where these kind of training can take place.

Post-sales services is another issue. It might be due to the fact that the end users do not want to spend the scarce foreign exchange resource, they seldom purchase the service options; but instead, they train up their own people in servicing the products. In order to do that, they do demand extensive training.

4.5 CONTRACTUAL CONCERNS

As a practice in China, foreign trade corporation is the only agent who can go into a contract with a foreign firm. A number of issues are observed in related to the contract itself.

Pricing

Since China has reopened its market in 1979, the number of foreign trading establishments have drastically increased. Most of them consider China as a market with unlimited potential. In particular, the Japanese traders, who are trying all they can to obtain a market share, have reduced their gross margin below any of their competitors in order to establish a long term trading relationship with the Chinese.

Besides, the Chinese has representatives stationing overseas to keep their home country informed of the latest market and pricing trends. However, because they are not at all familiar with

the products, very often they try to negotiate products of different specifications at one price.

As a result, the Chinese is in many instances able to negotiate contracts at extremely low price. This again reduces the profit margin of the foreign firm (Statement 22 of table 3.1). Nevertheless, we have found that price is the prime factor in securing business in China (Statement 23 of table 3.1).

Contract Conditions

Owing to the fact that China has a short history of foreign trade, the trading rules and regulations are still very ambiguous. Thus the contracts are usually not specific in details (Statements 27, 29 of table 3.1). Most of the time, they are rarely bound by international trading rules and regulations but instead they adhere to their own standards. In order to protect themselves, foreign firms prefer to specify the nature of inspection tests and product standards in the contracts (Statement 30 of table 3.1).

Even the contract is specific, it is perceived that China negotiators adhere closely to the terms and conditions of the contract once it is signed (Statement 31 of table 3.1). Dispute, however, do arises from time to time. When it happens, China negotiators often prefers to negotiate an alternative for settlement rather than going for any arbitration as stated within the contract (Statement 32 of table 3.1).

4.6 SITUATIONAL FACTORS

China's Long Term Strategy on International Trade

China's Foreign Trade Ministry is responsible for the overall planning and control of the trade activities with other countries. Anything which they purchase will be governed by the strategies set forth by the ministry. Therefore, even though the Commissions and Ministries are not in the scenario of negotiation, the impact is still tremendous. It has been found that once an informal relationship with these official organizations are established, trading would be easy.

China's Long Term Commitment with The Trading Countries

Chinese negotiators are found to be more emotional than those of other countries. Once a political and/or trading relationship is built up, they tend to favor firms from this country if the price and other concerns related to the commodity are equal.

Trade balance is another consideration. Since the control resides with the Commissions and Ministries, they are responsible for balancing trade activity with other countries. Therefore, even if everything is equal, some countries are more favoured than the others.

China has sometimes committed to a country or foreign corporation for certain commodity over a long period of time. Equally possible is the commodity is stocked within China. When it happens, no matter how good a job the foreign firm has done to convince the end user, the proposal will still be rejected by the foreign trade corporation. In fact, in certain occasions, the end users were advised to use compatible product from another firm unless very sound rationale could be substantiated.

Foreign Exchange

As Chinese currency is not convertible, China has exercised extreme care to maintain trade surplus (Statement 36 of table 3.1). A yearly foreign

exchange budget is assigned to every organization. Before the supplier can start its negotiation with foreign trade corporation, the end user has to apply for foreign exchange which is granted by the concerned Commission. When there is an abundant supply of foreign exchange at that time, the application process could be very easy. When the supply is short, China will tighten the foreign exchange control and negotiation will become very tough.

Decentralization of Negotiation and Special Economic Zones

In lieu of China's new economic development strategies, 14 cities has been opened for joint venture establishments with foreign firms. This open policy is welcome by most foreign traders, although there are pros and cons towards the current set up.

First of all, joint venture establishments are given more power in directly negotiating with foreign firms. Therefore, they are more flexible and are easier to trade with (Statements 17, 20 of table 3.1).

Since the Special Economic Zones have a lot of foreign investments, the foreign exchange control becomes relatively loose in these areas (Statement 37 of table 3.1). In one sense, it provides more flexibility to foreign firms; but on the other hand, it has brought about confusions in Chinese currency. It has recently be proposed that a special currency be issued for Special Economic Zones; but this proposal needs further considerations before it could be put into effect.

Following the opening of these 14 cities, we suspect that more cities of similar nature will subsequently be opened (Statement 19 of table 3.1). Without any doubt, China intends to use these Special Economic Zones for importing of high technologies. In one way or another, these cities are in direct competition with Hong Kong which currently acts as the "gateway" of China. Most business people, however, do not believe the privileges of Hong Kong will be lessened (Statement 43 of table 3.1).

4.7 FOREIGN TRADER'S ATTITUDE

Since China and Britian signed the agreement on the future of Hong Kong in 1984, a lot of uncertainties are clarified. Most business people based in Hong Kong perceive that it brings about favourable impact to them. A couple of reasons can be realized.

The economy of Hong Kong becomes much more stable when its future is clarified. Census statistics has shown that a number of businesses are recovering from recession. Meanwhile, some United States and Japanese firms have either started or expanded their operations in Hong Kong to trade with China. With Hong Kong's prosperous future, they do believe that Hong Kong is a good base for them to start with. By the time when Hong Kong is returned to China, they have already had their foot in there (Statements 38, 40, 41 of table 3.1).

These firms, without any doubt, are targeting for a long term business relationship (Statement 42 of table 3.1). With that in mind, it is not difficult to understand why they are so keen in China market even if their gross margin, and thus their profit, is deteriorating.

For Hong Kong business people, on the other hand, future goodviews constitutes additional advantage. As import of high-technology into China is definitely one of the goals China wants to achieve, what these business people have done are mostly regarded as contributions. In return of their contributions, they receive recognition(Statement 39 of table 3.1).

Nevertheless, the attitude of foreign traders is being reconstructed. Profit is no longer their prime concern. How it will be developed and where it will be are too soon to conclude at this moment. We are certain, however, that the change will be reflected in the negotiation they have with China, and the Chinese will react in a corresponding manner.

CHAPTER V

SUMMARY AND COMMENTS

In this paper, we have gone through an exercise of understanding and analyzing the business negotiation in China from the perspective of business people based in Hong Kong.

A model identifying the concerned parties and the inter-relationship between them is presented to describe the negotiation process. In order to find out how these foreign business people perceive the various elements of the model, we had conducted a survey. The results are outlined to substantiate our discussion of the model.

5.1 SUMMARY

It is commonly recognized that The People's Republic of China is a good marketplace for long term investment, eventhough the profit of the business is shrinking.

The Chinese negotiators are in general good in negotiation technique but poor in product knowledge. Together with their close adherence with their own trading rules and regulations which in most case are quite ambiguous, the negotiation becomes difficult. Governmental and environmental interferences constitute additional hindrances to the process.

China is very demanding in after-sales support and services. A foreign firm good in that, plus having a long trading relationship and constant interaction with China are easier to get business.

Opening of Special Economic Zones has multiple effect on business negotiation. It provides more flexibilities because the business entities there are given more power to negotiate with foreign firms.

But if the business brings about major consequence to China, the negotiation will still have to be carried out with the central foreign trade corporation after negotiation with the end user is completed. That means duplication of effort and longer turnaround time on the part of the foreign firm.

In general, the new trading rules, regulations, taxation and accounting systems are welcome by foreign firms because they are in one way or another advantageous to them.

Above all, most business people based in Hong Kong have confidence in the long term prospect in trading with China. Even with the establishment of the Special Economic Zones, Hong Kong will retain its privileges to be the best base for trading with China.

5.2 COMMENTS

Although we have planned our study as careful as we can, there are certain areas need further investigation and research.

1. China's economic reform and its open to foreign trade have changed the expectation of Chinese negotiators. We expect the change will carry on and we should continuously monitor it.

2. New trading rules and regulations, taxation and accounting systems, company ordinances, etc. are being legislated in China. These new standards, together with the gradually changes in China's economic and foreign trade system, will cause enormous impact to foreign business establishments in China, as well as foreign trading firms.

By and large, we believe more business negotiations with China will take place. A systematic approach to analyze the process should be worth. Our work is just a start. We hope more studies in this area could be seen in the future.

APPENDIX 1

Questionnaire

Research on Business Negotiation in China

Part I Request for summary report attitudes on Business Negotiation in PRC.

1. In establishing a good business relationship with the People's Republic of China(PRC), some knowledge of China's history and culture is helpful.
2. PRC trade corporations prefer to make initiate contacts through private commercial organizations specializing in PRC trade.
3. PRC trade corporations show great loyalty to suppliers/buyers of long standing.

4. PRC trade corporations take a longer time to reply foreign trade proposals than do those in other countries.
5. PRC negotiators tend to trust a firm with more interactions.
6. PRC representatives are extremely tough negotiators.
7. The officials of PRC trade corporations are technically well trained regarding the product they represent.
8. A technical specialist must accompany your representative in negotiating with PRC officials.
9. PRC negotiators prefer to make group decisions.
10. You prefer to negotiate with a centralized agency rather than a local foreign trade corporation.
11. Officials of centralized trade corporation have same concerns as those of local trade corporation.
12. Centralized agency is easier to negotiate with.

13. PRC negotiators usually negotiate with foreign representatives of equal rank or position.
14. In general, after relations are established, the PRC negotiators are easier to trade with than those of other countries.
15. Centralized agency is very effective in negotiating because they are knowledgeable of the business.
16. It is costly and time-consuming to negotiate with centralized agency because local buyer/seller has to be negotiated with again.
17. Joint venture businesses are easier to trade with in PRC.
18. It is a good move for China to open the 14 cities for foreign trade.
19. It is necessary for more cities including some in inland to be opened for free trade.
20. Special Economic Zone (SEZ) provides a lot of flexibilities for foreign trade.

21. PRC negotiators are very knowledgeable in product pricing.
22. Gross margin is decreasing for PRC business.
23. Price is the primary factor in getting business in China.
24. Expertise, service and financing are key factors for getting business in China.
25. PRC is very demanding on service and financing.
26. PRC always includes overseas training as part of the contract.
27. Rules and regulations of trade in China are ambiguous.
28. New foreign trade regulations are more favourable to foreign investors.
29. PRC contracts are highly specific in detail as compared to those in other countries.

30. In order to prevent merchandise quality disputes, it is necessary to specify the nature of inspection tests and product standards in contracts.
31. PRC negotiators adhere closely to the terms and conditions specified in their contracts.
32. When a contract dispute arises, PRC prefers to negotiate settlements rather than employ the arbitration provided in their contracts.
33. PRC prefers that goods traded be shipped and insured by their own companies.
34. PRC accounting standards are different from Western countries.
35. PRC accounting and taxation systems are reasonable.
36. PRC organizations always have foreign exchange problems.
37. Exchange control in Special Economic Zone is relatively loose.

38. Sino-British agreement has favourable impact on trade with companies based in Hong Kong.
39. With this agreement and new future of Hong Kong, you, as a Hong Kong citizen, want to trade with China for goodviews.
40. Hong Kong is a good base for China trade.
41. A western countries company based in Hong Kong is easier to trade with China.
42. Long term investments in China can be justified:
43. The 14 opened cities and SEZ will gradually overtake the privilege of Hong Kong in China trade.

Part II Personal Classification Data

1. Your post : _____

☐ Male ☐ Female Age _____

2. Your Working Experience ☐ Below 1 year
☐ 1-3 years ☐ 4-6 years
☐ 7-9 years ☐ 10-12 years
☐ Over 12 years

3. Your trading experience in China. ☐ Below 1 year
☐ 1-3 years ☐ 4-6 years
☐ 7-9 years ☐ 10-12 years
☐ Over 12 years

Part III Company Classification Data

1. Your company belongs to ☐ Services ☐ Trading
☐ Financing ☐ Technology
2. Head Office of your company is in _____
3. Your company's business negotiator is
☐ Hong Kong Citizen ☐ Overseas Employee
4. Number of staff of your company ☐ Below 10
☐ 11-30 ☐ 31-60
☐ 61-150 ☐ 151-300
☐ Over 300
5. Number of staff in your China trade section
☐ Below 5 ☐ 6-10
☐ 11-20 ☐ 21-40 ☐ 41-80
☐ Over 80
6. Number of transactions of China trade per annum
Approx. _____

Part III Company Classification Data (continued)

7. Annual amount of business of your company

Approx. HK\$ _____

8. Annual amount of China trade business of your company

Approx. HK\$ _____

9. Negotiations usually are held in

☐ China

☐ Hong Kong

10. Average length of time of a single negotiation

_____ day _____ month _____ year

THANK YOU VERY MUCH FOR YOUR KIND ASSISTANCE AND

WISH YOU ALL THE BEST IN THE YEAR OF THE OX

APPENDIX 2

Table A

ANALYSIS OF RESPONDENTS BY POSITION

Position	Number of Respondents	Percentage
Representative	9	22.5%
Director	7	17.5%
Manager	21	52.5%
Clerk	1	2.5%
Not specified	2	5.0%
Total	40	100.0%
	==	=====

Table B

ANALYSIS OF RESPONDENTS BY WORKING EXPERIENCE

Working Experience	Number of Respondents	Percentage
4 - 6 years	8	20.0%
7 - 9 years	9	22.5%
10 - 12 years	4	10.0%
Over 12 years	19	47.5%
Total	40	100.0%
	==	=====

Table C

ANALYSIS OF RESPONDENTS BY CHINA TRADE EXPERIENCE

China Trade Experience	Number of Respondents	Percentage
1 - 3 years	10	25.0%
4 - 6 years	17	42.5%
7 - 9 years	7	17.5%
10 - 12 years	2	5.0%
Over 12 years	4	10.0%
Total	40	100.0%
	==	=====

Table D

ANALYSIS OF RESPONDENTS BY COMPANY SIZE

No. of Staff	Number of Respondents	Percentage
Below 10	3	7.5%
11 - 30	8	20.0%
31 - 60	6	15.0%
61 - 150	4	10.0%
151 - 300	3	7.5%
Over 300	16	40.0%
Total	40	100.0%
	==	=====

Table E

ANALYSIS OF RESPONDENTS BY CHINA TRADE SECTION SIZE

No. of Staff	Number of Respondents	Percentage
Below 5	9	22.5%
6 - 10	8	20.0%
11 - 20	7	17.5%
21 - 40	5	12.5%
41 - 80	4	10.0%
Over 80	5	12.5%
Not specified	2	5.0%
Total	40	100.0%
	==	=====

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